

**REPORT OF THE AUDIT OF THE
FORMER NICHOLAS COUNTY
SHERIFF'S SETTLEMENT - 2010 TAXES**

**For The Period
April 16, 2010 Through August 09, 2011**



**CRIT LUALLEN
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EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
FORMER NICHOLAS COUNTY
SHERIFF'S SETTLEMENT - 2010 TAXES

For The Period
April 16, 2010 Through August 09, 2011

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2010 Taxes for the former Nicholas County Sheriff for the period April 16, 2010 through August 09, 2011. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The former Sheriff collected taxes of \$1,814,324 for the districts for 2010 taxes, retaining commissions of \$71,796 to operate the former Sheriff's office. The former Sheriff distributed taxes of \$1,742,252 to the districts for 2010 taxes.

Report Comment:

2010-01 The Former Sheriff's Office Lacked Adequate Segregation Of Duties

Deposits:

The former Sheriff's deposits were insured and collateralized by bank securities.

CONTENTS

PAGE

| | |
|---|----|
| INDEPENDENT AUDITOR'S REPORT | 1 |
| SHERIFF'S SETTLEMENT - 2010 TAXES..... | 3 |
| NOTES TO FINANCIAL STATEMENT | 4 |
| REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS | 9 |
| COMMENT AND RECOMMENDATION | 13 |



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Lori H. Flanery, Secretary

Finance and Administration Cabinet

Honorable Kenneth Lyons, Nicholas County Judge/Executive

Honorable Leonard T. Garrett, Former Nicholas County Sheriff

Honorable Jeff Sidles, Nicholas County Sheriff

Members of the Nicholas County Fiscal Court

Independent Auditor's Report

We have audited the former Nicholas County Sheriff's Settlement - 2010 Taxes for the period April 16, 2010 through August 09, 2011. This tax settlement is the responsibility of the former Nicholas County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement in accordance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the former Nicholas County Sheriff's taxes charged, credited, and paid for the period April 16, 2010 through August 09, 2011, in conformity with the modified cash basis of accounting.



To the People of Kentucky

Honorable Steven L. Beshear, Governor

Lori H. Flanery, Secretary

Finance and Administration Cabinet

Honorable Kenneth Lyons, Nicholas County Judge/Executive

Honorable Leonard T. Garrett, Former Nicholas County Sheriff

Honorable Jeff Sidles, Nicholas County Sheriff

Members of the Nicholas County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated September 6, 2011 on our consideration of the former Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following report comment:

2010-01 The Former Sheriff's Office Lacked Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen

Auditor of Public Accounts

September 6, 2011

NICHOLAS COUNTY
LEONARD T. GARRETT, FORMER SHERIFF
SHERIFF'S SETTLEMENT - 2010 TAXES

For The Period April 16, 2010 Through August 09, 2011

| <u>Charges</u> | <u>County Taxes</u> | <u>Special Taxing Districts</u> | <u>School Taxes</u> | <u>State Taxes</u> |
|--------------------------------|---------------------|-------------------------------------|---------------------|--------------------|
| Real Estate | \$ 280,512 | \$ 288,441 | \$ 817,980 | \$ 261,240 |
| Tangible Personal Property | 7,334 | 6,967 | 18,721 | 16,782 |
| Increases Through Exonerations | 14 | 18 | 37 | 5 |
| Franchise Taxes | 33,742 | 40,173 | 89,665 | |
| Penalties | 3,310 | 3,502 | 9,627 | 3,186 |
| Adjusted to Sheriff's Receipt | (134) | (166) | (403) | (26) |
| Gross Chargeable to Sheriff | <u>324,778</u> | <u>338,935</u> | <u>935,627</u> | <u>281,187</u> |
| <u>Credits</u> | | | | |
| Exonerations | 377 | 388 | 1,100 | 351 |
| Discounts | 4,054 | 4,117 | 11,786 | 3,903 |
| Delinquents: | | | | |
| Real Estate | 6,764 | 7,136 | 19,723 | 6,299 |
| Tangible Personal Property | <u>28</u> | <u>26</u> | <u>72</u> | <u>79</u> |
| Total Credits | <u>11,223</u> | <u>11,667</u> | <u>32,681</u> | <u>10,632</u> |
| Taxes Collected | 313,555 | 327,268 | 902,946 | 270,555 |
| Less: Commissions * | <u>13,326</u> | <u>10,853</u> | <u>36,118</u> | <u>11,499</u> |
| Taxes Due | 300,229 | 316,415 | 866,828 | 259,056 |
| Taxes Paid | 300,183 | 316,363 | 866,693 | 259,013 |
| Refunds (Current Year) | <u>46</u> | <u>52</u> | <u>135</u> | <u>43</u> |
| Due Districts | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 0</u> |

* Commissions:

| | | |
|----------|----|---------|
| 4.25% on | \$ | 817,351 |
| 4% on | \$ | 902,946 |
| 1% on | \$ | 94,027 |

The accompanying notes are an integral part of this financial statement.

NICHOLAS COUNTY
NOTES TO FINANCIAL STATEMENT

August 09, 2011

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The former Nicholas County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

NICHOLAS COUNTY
NOTES TO FINANCIAL STATEMENT
August 09, 2011
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the former Sheriff's deposits may not be returned. The former Nicholas County Sheriff did not have a deposit policy for custodial credit risk but rather followed the requirements of KRS 41.240(4). As of August 09, 2011, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Tax Collection Period

The real and personal property tax assessments were levied as of January 1, 2010. Property taxes were billed to finance governmental services for the year ended June 30, 2011. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 15, 2010 through August 9, 2011.

Note 4. Interest Income

The former Nicholas County Sheriff earned \$390 as interest income on 2010 taxes. The former Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder was used to operate the former Sheriff's office.

Note 5. Sheriff's 10% Add-On Fee

The former Nicholas County Sheriff collected \$16,001 of 10% add-on fees allowed by KRS 134.119(7). This amount was used to operate the former Sheriff's office.

Note 6. Resignation of Former Nicholas County Sheriff

On August 9, 2011, Leonard T. Garrett resigned as Sheriff of Nicholas County.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Kenneth Lyons, Nicholas County Judge/Executive
Honorable Leonard T. Garrett, Former Nicholas County Sheriff
Honorable Jeff Sidles, Nicholas County Sheriff
Members of the Nicholas County Fiscal Court

Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the former Nicholas County Sheriff's Settlement - 2010 Taxes for the period April 16, 2010 through August 09, 2011, and have issued our report thereon dated September 6, 2011. The former Sheriff prepared his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the former Nicholas County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the former Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the former Sheriff's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over financial reporting, described in the accompanying comment and recommendation as item 2010-01 that we consider to be a significant deficiency in internal control over financial reporting. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.



Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the former Nicholas County Sheriff's Settlement - 2010 Taxes for the period April 16, 2010 through August 09, 2011, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management, the Nicholas County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Crit Luallen', with a stylized, flowing script.

Crit Luallen
Auditor of Public Accounts

September 6, 2011

COMMENT AND RECOMMENDATION

NICHOLAS COUNTY
LEONARD T. GARRETT, FORMER SHERIFF
COMMENT AND RECOMMENDATION

For The Period April 16, 2010 Through August 09, 2011

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY:

2010-01 The Former Sheriff's Office Lacked Adequate Segregation Of Duties

The former Sheriff's office consists of two part-time employees that share the duties of tax collections and payments to districts. The former Sheriff and the part-time employees collect tax payments. The part-time deputies also rotate duties consisting of preparing the daily bank deposit, posting items to the receipts ledger, and preparing the monthly bank reconciliation that is agreed to the receipts and disbursements ledgers. Also they rotate preparing checks for tax distribution and posting to the disbursements ledger. Although the employees do rotate duties, they have not documented the review of each other's work. The Sheriff signs all checks and started requiring dual signatures in April 2011. Good internal controls dictate that the same employee should not handle, record, and reconcile receipts and disbursements. The Sheriff should implement the following compensating controls to help offset this control weakness.

- The Sheriff should periodically compare the daily bank deposit to the daily checkout sheet. The Sheriff should document this by initialing the deposit slip.
- The Sheriff should review monthly bank reconciliations prepared by another employee. He should document his review by signing the bank reconciliation.

Sheriff's Response: None.

